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THE REALIZATION OF ECONOMIC, SOCIAL AND CULTURAL RIGHTS

Written statement submitted by the International Monetary Fund

1. The International Monetary Fund is pleased to have the opportunity again to participate in the important discussions of the Sub-Commission's work on the realization of economic, social and cultural rights, particularly with respect to the formulation of macroeconomic and structural adjustment policies. The need to continue this debate is clear because, as IMF noted last year, the achievement of lasting growth that indeed promotes a genuine improvement in living standards is a common goal. But how to best achieve this goal is not an easy matter, as it requires decisions that are difficult to implement and steadfastness to harvest their results. As a consequence, in many debates, the desire to find less demanding solutions has continued to clash with the exigencies of reality and thereby has given rise to basic misunderstandings about causes and effects, although less and less so at the level of national policy formulation. The final report of the Special Rapporteur on the realization of economic and social rights bases some of its arguments on just such misunderstandings and it is in the spirit of our common desire to achieve a better way of life for the many that the Fund takes up some of these problems.

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2. It surely is no coincidence that so many countries at this juncture in their history have chosen to recognize that their economies are beset with structural impediments that hold back the kind of growth that makes for a better way of life. This kind of growth is based on output of those goods and services that make for a better quality of life - that is why we call it quality growth. This quality growth provides for both the basic human needs - which all of us feel should be accessible by right - and the extra margin that makes the difference between a mere subsistence standard and one that allows greater fulfilment of human potential.

3. Thus, it is not sufficient that the national accounts register positive growth - it is the structure of that growth that is important. Where the latter is inadequate, the path to higher and better quality growth requires structural adjustment. Many rich countries have - at their own peril - chosen to ignore or compromise their own adjustment needs, but that does not indicate that, in fact, there is a choice - only that they have more leeway than do poor countries to impoverish themselves. The record, however, is clear: experience has taught that emulating the rich in this respect leads to waste of resources and loss of opportunity that is difficult to recapture later. Therefore, the Fund is more than disturbed by the Special Rapporteur's admonition that one should "explore viable alternatives to adjustment". Adjustment is not optional; the choice is between forced, haphazard adjustment, or formulating and implementing an optimal adjustment strategy.

4. The difficult economic period of the late 1970s and 1980s demonstrates this fact very clearly. The deterioration in economic performance in many countries in the 1980s resulted from the inflationary excesses, externally and domestically, of the preceding period. In many countries, structural rigidities and inappropriate economic policies added to the problems created by the unfavourable external environment, and the response often was to seek "alternatives to basic adjustment". Thus, through heavy external borrowing, many attempted to stimulate domestic demand by increasing government expenditures, despite stagnant or falling revenues, and tightening import restrictions, despite an already inefficient allocation of resources; in short, they exacerbated the results of structural rigidities rather than moved to correct them. As a result, fiscal imbalances widened, inflation accelerated, growth deteriorated, and external debt soared. There were, however, exceptions, mainly in countries that had been pursuing policies that supported savings and investment by their populations, instead of financing alternatives to adjustment by accumulating a massive debt. Thus, in a number of Asian countries that had followed a sustained adjustment strategy, growth rates continued to range from 7 to 9 per cent per annum. Over the past few years progressive adoption of sustained policy reform has allowed the re-emergence of better growth performance in many other countries, spread across the globe.

5. These findings are further supported by recent studies by other observers, who conclude that orderly adjustment does not need to increase poverty, and that the more timely it is, the less painful. These facts are obscured by the unfortunate and counter-productive tendency to attribute continued visible economic difficulties in adjusting countries to the policy

measures taken to correct them. It is often forgotten that the costs of disorderly adjustment, i.e. the consequences of choosing not to deal directly - or in a timely fashion - with the underlying causes of lack of balanced growth, are higher and fall disproportionately heavily on the more vulnerable parts of the population than do the effects of an appropriate strategy. Take inflation for example: it is easy to see that a cut-back in wasteful uses of scarce resources will produce visible "withdrawal effects". However, the latter can be ameliorated by targeted income - and/or expenditure - supports, while it is certain that a policy of "doing nothing" will lead to a spiralling of inflation that tends to hit the poor the hardest. Similarly, as the Fund noted last year, once it is clear what the reasons for, and the purposes of, structural adjustment are - mainly the removal of impediments that tend to constrict what, after all, is the most precious resource, namely human ingenuity - the rationale for orderly structural adjustment is overwhelming.

6. The complaint, so often heard, that structural adjustment strategies and, therefore, Fund-supported programmes in different countries seem to be carbon copies of each other, stems from both a rather superficial look at these strategies and a misunderstanding of the underlying reasons. Of course, to the extent that countries need to correct the effect of broadly similar mistakes, the remedies also will appear to be broadly similar in nature, particularly if they are applied belatedly. However, in structure and detail they will differ widely, depending both on the adjustment need and the economic and social endowments of a country. Thus, the Fund can only reiterate that it does not a priori apply one single prescription in its policy advice, but rather a whole palette, varying both in colour mix and colour intensity. This does not mean that mistakes have not been made and that one has not learned from experience. One of the results, as well known, is the greater emphasis that has been placed on social aspects of adjustment and the explicit incorporation of affordable social safety nets in an increasing number of instances. However, the Fund would take issue with the Special Rapporteur's recommendation of providing for broader and more permanent social safety nets as a matter of right. Safety nets, by definition, provide temporary support; that is why they are safety nets and not safety beds.

7. At the same time, safety nets would need to be structured so as to be affordable, which means dependable. This is true for government expenditure as a whole. Where resources have been mismanaged, vested interests become ingrained and growth will be stunted in those areas that count (output that enhances the quality of life). Thus, a reordering and pruning of government expenditures often is an integral and early part of the adjustment process. In that process - and the Fund typically recommends so - expenditure cuts need to focus on clearly less productive areas, such as excessive military spending and direct and indirect financial support of vested interests. This would include replacing inefficient transfer mechanisms that shift resources both to those who do not and those who do need them, with better targeted transfers. A well-structured reordering of government expenditure does not necessarily produce a deterioration in the provision of socially important services.

Because of the unfortunate tendency to equate the adequacy of expenditures on health and education, for example, with their weight in total expenditures, a general reduction of such expenditures is often taken to suggest a decline in standards. However, the opposite may be true due to more efficient utilization of the more limited resources. For example, the Special Rapporteur's report suggests that reduction in health expenditures in Chile resulted in a decline in nutritional standards, whereas in fact there was a measurable improvement. That is not to say that no decline in social expenditures could impact the poor adversely. Exactly to prevent this from happening, some degree of redistribution of expenditure is typically built into adjustment packages.

8. The question of whether or not the Fund should involve itself centrally in income redistribution needs to be answered negatively, not the least because it touches directly on what should be sovereign decisions by national Governments. It would seem that it is up to the national authorities to continue to enhance programmes that improve the equitable distribution of resources beyond the immediate horizon of the adjustment programme. In any case, it is very difficult to draw the line at what, appropriately, can be done to assist countries in developing policies to address their social concerns and what would constitute the imposition of outside standards in that respect. The Special Rapporteur's final report demonstrates this difficulty where, on the one hand, he points to a - in his opinion - counter-productive loss of sovereignty through policies that provide for closer integration into the international community and, on the other, both worries about marginalization and asks outside agencies to develop and impose equity standards. The Fund would suggest that the balance between what is needed to achieve the essential goals of an adjustment programme and what is desirable to continue beyond, provides a good indicator of the appropriate balance for policy advice as well. In that context, distinction should be drawn between the components of a Fund-advised policy package and the performance criteria that are devised to measure progress. The latter constitute milestones along the way toward better balance, but cannot describe the condition of the road. Thus, Fund advice covers many aspects of policy not necessarily incorporated in performance criteria, although captured in specific policy measures that are part of the overall policy programme. Examples are limitations on growth in employment at non-priority ministries, and restructuring of subsidies on items such as food, rent, transport, and energy, so they no longer benefit primarily the middle-income and wealth groups, but are targeted to reach the needy.

9. The Special Rapporteur has advanced several recommendations relating to Fund activities, including areas deserving increased attention in policy advice and programme formulation. But some of his recommendations are already being implemented in policy strategies developed by member countries in collaboration with the Fund and the World Bank. Other United Nations agencies have a positive role to play as well, but the Fund would also note that, in this regard, it is a matter for the country authorities to seek such assistance as they might need in the elaboration of social-sectoral dimensions in their adjustment programmes.

10. One missing link, that does require cooperation among United Nations agencies and Member States, involves the insufficient amount of official development assistance and the difficulties institutions like the Fund have in assuring that sufficient financial resources are available to support the adjustment efforts of those countries that undertake them under harsh external and internal circumstances. Official development assistance is an essential additive to the decisive role of domestic saving in the development process and the ending of the cold war era makes it easier to free up the necessary resources to this end. In this area, as well as others, United Nations agencies need joint efforts to assure that the fate of the poorest countries can be significantly improved.